

50th Anniversary

A Strong Foundation Protects Your Future



Missouri State Employees' Retirement System
A Component Unit of the State of Missouri

Summary Annual Financial Report
Fiscal Year Ended June 30, 2007



Trees

The essence of strength and stability

Growth and maturity

Lasting for generations

Their resources provide protection and security

They are dynamic

Changing with the seasons

Yet rooted in rich substance and history

These characteristics exemplify MOSERS.

Join us as we celebrate our 50th anniversary and revisit our roots while acknowledging the stability, growth, and development of the fund that provides protection and security to generations of state employees.

For a guided tour of MOSERS' history
visit our Online Anniversary Museum at www.mosers.org.



Message From the Board Chair

October 17, 2007

Dear Members:

On behalf of the board of trustees, I am pleased to present the *MOSERS' Summary Annual Financial Report* for the fiscal year ended June 30, 2007. This report provides information on the financial status of your retirement system while also highlighting changes that occurred during the year.

Your retirement system remains well funded and your promised benefits are secure.

First and foremost, I am pleased to report that your retirement system remains well funded and your promised benefits are secure. The MOSERS fund generated a return of 18.7% (net of expenses) for the year placing MOSERS' investment return in the top 25% of all public pension funds with assets in excess of \$1 billion as reported by the Independent Consultant Cooperative. This resulted in over \$717 million in excess of the return that would have been generated by the 8.5% return rate assumed for funding purposes. This type of performance makes your fund more secure while also reducing future costs to the taxpayers.

In keeping with this year's annual report theme, "A Strong Foundation Protects Your Future," I'm pleased to report that for the seventh straight year MOSERS' investments have generated returns in excess of our benchmark and have done so with less volatility. The incremental reward from these results over seven years has been an additional \$1.5 billion in MOSERS' coffers.

This year also marks the 50th anniversary of the fund since it was first established in 1957. Much of MOSERS' history has been highlighted in a special anniversary museum located on our website at www.mosers.org. I encourage you to take a moment to learn about the very humble beginning of our investment program which was initiated when a single outside adviser placed \$100,000 in 90-day U.S. Treasury Bills on behalf of participants. Today, 50 years later, I'm pleased to report your fund has assets totaling over \$8 billion.

On behalf of the board, I wish to thank Marsha Buckner for her many contributions to the system while serving as a both a trustee and former chair of the board. Bob Patterson joined the board this year as the newly elected active member representative. We look forward to working with him.

In closing, you can be assured that MOSERS' staff strives to provide the expertise and professionalism required for excellence in our retirement system. I would like to thank them for continuing to maintain a high level of commitment to serving our membership, and we look forward to meeting your future needs. If you have any questions regarding this report or any other aspect of MOSERS, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102, or by calling 1-800-827-1063.

Sincerely,

Todd Smith, Chair
Board of Trustees



Financial Statements

Summary Comparative Statements of Plan Net Assets

| | As of June 30, 2007 | As of June 30, 2006 | Amount of Change | Percentage Change |
|--|------------------------|------------------------|------------------------|----------------------|
| Cash and short-term investments | \$ 559,151,957 | \$ 688,443,267 | \$(129,291,310) | (18.78)% |
| Receivables | 266,136,960 | 196,389,135 | 69,747,825 | 35.52 |
| Investments | 7,591,560,532 | 6,399,798,514 | 1,191,762,018 | 18.62 |
| Invested securities lending collateral | 899,055,356 | 1,152,399,706 | (253,344,350) | (21.98) |
| Capital assets | 3,309,904 | 3,275,118 | 34,786 | 1.06 |
| Other assets | 40,139 | 53,673 | (13,534) | (25.22) |
| Total assets | <u>9,319,254,848</u> | <u>8,440,359,413</u> | <u>878,895,435</u> | <u>10.41</u> |
| Administrative expense payables | 1,691,875 | 1,949,676 | (257,801) | (13.22) |
| Investment purchase payables | 262,775,085 | 224,570,235 | 38,204,850 | 17.01 |
| Securities lending collateral | 899,444,368 | 1,152,189,688 | (252,745,320) | (21.94) |
| Other liabilities | 26,169,163 | 20,183,196 | 5,985,967 | 29.66 |
| Total liabilities | <u>1,190,080,491</u> | <u>1,398,892,795</u> | <u>(208,812,304)</u> | <u>(14.93)</u> |
| Net assets | <u>\$8,129,174,357</u> | <u>\$7,041,466,618</u> | <u>\$1,087,707,739</u> | <u>15.45%</u> |

The *Statements of Plan Net Assets* are summaries of what MOSERS owns and what it owes as of the end of the fiscal year.

Summary Comparative Statements of Changes in Plan Net Assets

| | Year Ended June 30, 2007 | Year Ended June 30, 2006 | Amount of Change | Percentage Change |
|-------------------------------|-----------------------------|-----------------------------|------------------------|----------------------|
| Contributions | \$ 266,868,077 | \$ 252,868,692 | \$ 13,999,385 | 5.54% |
| Investment income | | | | |
| Investing activities | 1,292,070,457 | 730,783,761 | 561,286,696 | 76.81 |
| Investment income | | | | |
| Securities lending activities | 2,859,293 | 3,676,741 | (817,448) | (22.23) |
| Miscellaneous income | 547,064 | 505,597 | 41,467 | 8.20 |
| Total additions | <u>1,562,344,891</u> | <u>987,834,791</u> | <u>574,510,100</u> | <u>58.16</u> |
| Benefits | 467,836,275 | 419,261,150 | 48,575,125 | 11.59 |
| Contribution refunds | 0 | 1,341 | (1,341) | (100.00) |
| Service transfers and refunds | 51,980 | 133,866 | (81,886) | (61.17) |
| Administrative expenses | 6,748,897 | 6,539,427 | 209,470 | 3.20 |
| Total deductions | <u>474,637,152</u> | <u>425,935,784</u> | <u>48,701,368</u> | <u>11.43</u> |
| Net increase (decrease) | 1,087,707,739 | 561,899,007 | 525,808,732 | 93.58 |
| Net assets beginning of year | <u>7,041,466,618</u> | <u>6,479,567,611</u> | <u>561,899,007</u> | <u>8.67</u> |
| Net assets end of year | <u>\$8,129,174,357</u> | <u>\$7,041,466,618</u> | <u>\$1,087,707,739</u> | <u>15.45%</u> |

The *Statements of Changes in Plan Net Assets* summarize the flow of money in and out of the fund throughout the fiscal year.



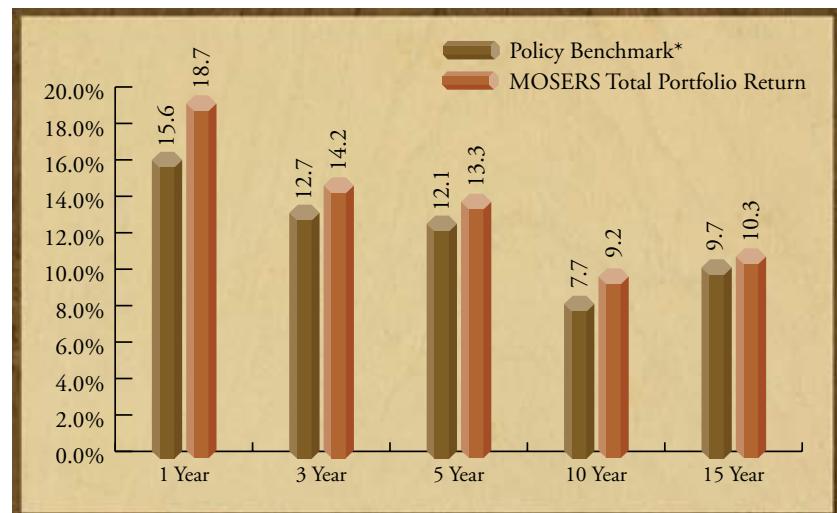
Investment Performance

Investment Return

Comparing the actual investment return relative to specific benchmarks is one means of evaluating the fund's investment performance. The bar chart to the right illustrates MOSERS' actual fund return relative to our policy and strategic benchmarks.

The total fund generated a return of 18.7%, net of expenses, in FY07. On a relative basis, the fund outperformed the policy benchmark by 3.1%.

For the seventh straight year, MOSERS' investments generated returns in excess of the benchmark which has resulted in an additional \$1.5 billion for the fund.

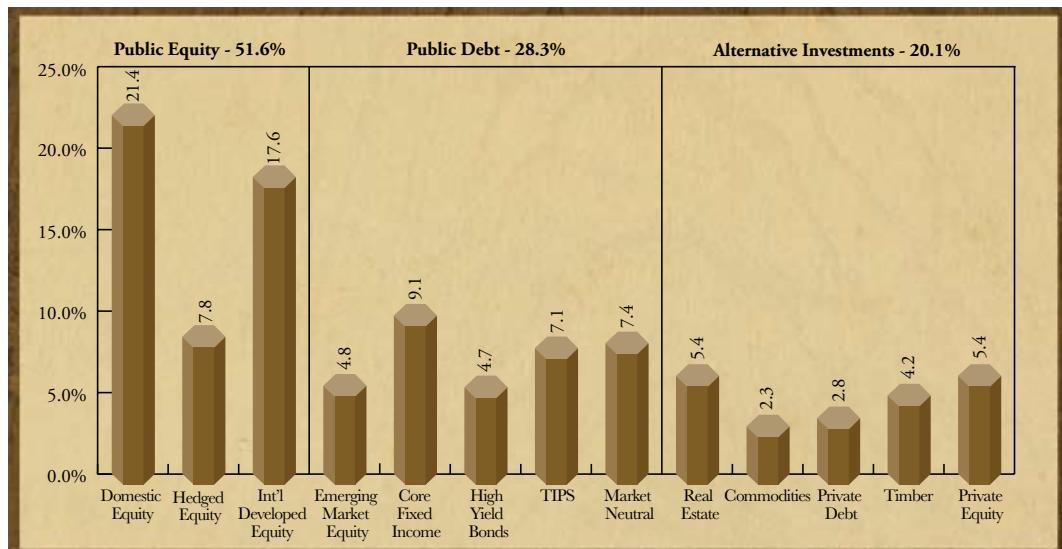


* The policy benchmark provides an indication of the returns that could be achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.

Diversification of Plan Net Assets

The foundation of the system's strength and stability rests upon the diversification of plan assets. MOSERS never knows what the future will hold from the investment markets. As a result, the portfolio is structured to control risk under a variety of economic outcomes. Through the diversification of system assets, MOSERS is better able to minimize the overall risk of the portfolio while striving to reach its return objectives. As you will note from the bar chart below, MOSERS' investment program is widely diversified among a variety of asset classes with numerous holdings in each category.

MOSERS' investment portfolio is widely diversified to control risk under a variety of economic outcomes which may play out over time.



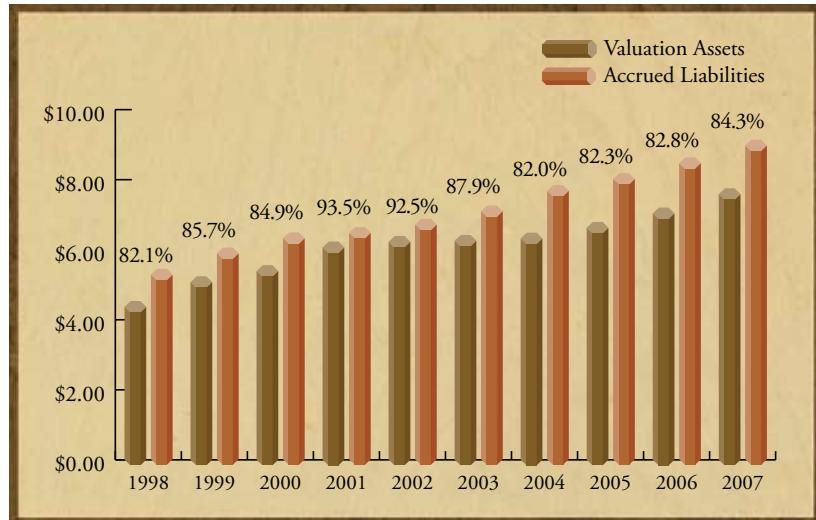


Actuarial Summary

Funding the Retirement Plan

Your retirement benefits are funded by contributions from the state of Missouri. In order to ensure your benefits are available to you, MOSERS is constantly evaluating the plan's assets (brown bar) relative to the value of the liabilities (rust bar). The percentages shown in the bar chart to the right indicate the extent to which the plan was funded as of a given year.

MOSERS was 84.3% funded at the end of FY07. Being over 80% funded is considered good.



Member SnapShot

| June 30, 2007 Actuarial Valuations | MSEP* | Judicial Plan |
|------------------------------------|----------|---------------|
| Active Members | | |
| Average age | 45.0 | 54.4 |
| Average years of service | 10.7 | 11.2 |
| Average annual salary | \$33,969 | \$102,116 |
| Retired Members | | |
| Average age | 69.0 | 72.8 |
| Average annual benefit | \$14,166 | \$49,580 |
| Total Membership | | |
| Active | 54,363 | 400 |
| Terminated-Vested | 16,518 | 60 |
| Retired | 28,692 | 437 |

* Includes members in both the MSEP and MSEP 2000.

Members Retiring During the Fiscal Year Ended June 30, 2007*

| | Years Credited Service by Category | | | | | | | All Members |
|------------------------------|------------------------------------|---------|---------|---------|---------|---------|---------|----------------|
| | <5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ | |
| Average monthly benefit | \$ 150 | \$ 279 | \$ 479 | \$ 698 | \$1,112 | \$1,562 | \$1,865 | \$ 942 |
| Average final average salary | \$2,613 | \$2,359 | \$2,479 | \$2,666 | \$2,951 | \$3,314 | \$3,420 | \$2,831 |
| Number of retirees | 1 | 453 | 332 | 351 | 363 | 457 | 212 | 2,169 |

* Includes members in both the MSEP and MSEP 2000.



Outstanding Achievement



The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its summary annual report for the fiscal year ended June 30, 2006.

This prestigious national award recognizes popular reports for creativity, presentation, understandability, and reader appeal and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to the GFOA for evaluation.

Our Mission and Core Values

Mission

To exceed customer expectations by providing outstanding benefit services through professional plan administration and sound investment practices.

Core Values

Quality

Strive to exceed the expectations of internal and external customers through innovation, competence, and teamwork. Seek to "do it right" the first time.

Respect

Be sensitive to the needs of others, both within and outside the organization. Be courteous, considerate, responsive, and professional.

Integrity

In all endeavors, act in an ethical, honest, and professional manner.

Openness

Be willing to listen to, and share information with, others. Be receptive to new ideas. Be trusting of others.

Accountability

Take ownership of and responsibility for actions and their results. Learn from mistakes. Control system risks and act to protect the security of member information and system assets.



This *Summary Annual Financial Report* is derived from the information contained in MOSERS' *Comprehensive Annual Financial Report* (CAFR) but does not include all funds administered by MOSERS nor certain other information required for conformity with Generally Accepted Accounting Principles (GAAP). MOSERS' CAFR is produced in conformity with GAAP. Contact MOSERS to request a copy of the CAFR, or explore it on our website at www.mosers.org.

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To request an alternative format, please contact MOSERS
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MOSERS is an equal opportunity employer.



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